

**MINUTES OF THE  
UTAH TAX REVIEW COMMISSION**

Wednesday, February 18, 2009 – 12:00 p.m. – Room 445 State Capitol

**Members Present:**

Mr. M. Keith Prescott, Chair  
Mr. Mark K. Buchi  
Dr. Gary Cornia  
Rep. John Dougall  
Ms. Janis A. Dubno  
Sen. Brent Goodfellow  
Comm. Bruce Johnson  
Rep. Christine A. Johnson  
Rep. Todd E. Kiser  
Sen. Wayne L. Niederhauser

**Members Absent:**

Mr. David Crapo, Vice Chair  
Mr. Larry Barusch  
Sen. Lyle W. Hillyard  
Ms. Kathleen Howell  
Mr. Bruce Jones  
Mr. Dixie Leavitt

**Staff Present:**

Mr. Phillip V. Dean, Policy Analyst  
Mr. Leif G. Elder, Policy Analyst  
Mr. Bryant R. Howe, Assistant Director  
Ms. Angela D. Oakes, Associate General Counsel  
Ms. Rebecca L. Rockwell, Associate General Counsel  
Ms. Phalin L. Flowers, Legislative Secretary

**Note:** A list of others present, a copy of related materials, and an audio recording of the meeting can be found at [www.le.utah.gov](http://www.le.utah.gov).

**1. TRC Business**

Chair Prescott called the meeting to order at 12:15 p.m. He excused Mr. Crapo and Ms. Howell from the meeting and welcomed Rep. Christine Johnson as a new member of the TRC.

**2. Sales Taxation of Food**

Rep. Kay McIff introduced the topic. He said that the current economic downturn has led to a severe reduction in state tax revenues. He said that sales of food are taxed at a lower state sales tax rate of 1.75 percent rather than the full state sales tax rate of 4.7 percent. He said that the state faces the challenge of an unstable tax structure and that the single most stable component of Utah's sales tax structure has historically been the sales tax on food. He discussed a letter that was mailed to the TRC that lists issues related to the sales tax on food and said that he would like the TRC to study and make recommendations regarding this issue.

Mr. Dean distributed and discussed "Sales Tax on Food." He presented background information on the history of the sales tax on food in Utah and discussed the estimated impact from increasing and decreasing the taxable rate on food and food ingredients. Mr. Dean also gave an overview of the federal earned income tax credit.

Staff distributed "Restore sales tax on food to help check state revenue decline," *The Salt Lake Tribune*, and "State Sales and Use Tax Revenues 1990-2008."

Ms. Allison Rowland, Voices for Utah Children, said her organization supports implementing a state earned income tax credit. She also answered questions from the TRC about outreach to individuals who do not file income tax returns.

Rep. Dougall said that this proposal only addresses the imposition of the sales tax on food. He said that the TRC should also consider whether to impose the sales tax on all final consumption by households and to exclude from the sales tax the purchase of all business inputs.

Dr. Cornia said that removing the sales tax from business inputs and taxing all final consumption is good tax policy and good economic development policy. He said that a tax on exports is bad tax policy and that the TRC should support efforts to improve the competitiveness of the goods and services produced in Utah. He said that tax policy must recognize that Utah businesses compete in a global economy.

Rep. Kiser asked how a sales tax on business purchases could be considered as an export tax. Dr. Cornia replied that the cost of the tax is imbedded in the purchase price of a good or service produced in Utah.

Ms. Dubno said that equity considerations are also important. She said that there are many ways to promote a broad tax base and that tax relief on food promotes tax equity. She said, however, that the wholesale exemption of food is not targeted to those taxpayers who most need tax relief and that it may also compromise revenue stability.

Rep. Dougall said that providing the sales tax exemption for food at the point of sale is the most efficient way to provide direct tax relief to all citizens. He said that under other tax relief proposals, a taxpayer must file a tax return and wait for a refund.

Mr. Buchi wondered what percent of eligible taxpayers claim the federal earned income tax credit. He said that he assumes that many eligible taxpayers do not file a tax return.

Ms. Dubno said that another way to provide targeted tax relief would be to make the current taxpayer tax credit a refundable tax credit.

Rep. McIff said that the broader sales tax policy discussions are important and should proceed. He said that his proposal, however, is very narrow. He said that one concern is that lower tax revenues have necessitated cuts in important health and human services and other state programs. Rep. McIff noted that it is administratively simple to link the proposed tax credit to the federal earned income tax credit.

Dr. Cornia said that the evidence is clear that most states increase their sales tax rates after sales of food is removed from the base.

Rep. Dougall said that stability is important for both the sales tax and the individual income tax. He said that the state individual income tax would be more stable but for the taxpayer tax credit.

Chair Prescott asked the members of the TRC how they wish to proceed with this issue.

Rep. Johnson said that she is concerned about replacing the sales tax exemption with an income tax credit because many taxpayers do not file individual income tax returns.

Rep. Dougall and Ms. Dubno said that publicity efforts and outreach to eligible taxpayers are important.

Rep. McIff said that he wants a system that is simple to administer. He said that individual responsibility to file a return to receive the tax credit is also important.

Sen. Niederhauser said that while he appreciates Rep. McIff's proposal, it should move forward in the context of overall sales and use tax reform.

**MOTION:** Sen. Niederhauser moved to include a discussion of sales tax on food in the study of broadening the sales and use tax base.

**SUBSTITUTE MOTION:** Rep. Dougall moved to adopt the position that the TRC believes good sales tax policy consists of taxing final consumption while excluding business inputs. The substitute motion passed with Rep. Johnson voting in opposition.

**MOTION:** Mr. Buchi moved to direct the sales tax working group to add the taxation of food to the studies planned for this year and add a study mechanism on how to deliver sales tax relief to low income individuals in the most effective and complete manner.

**SUBSTITUTE MOTION:** Ms. Dubno moved that if the TRC recommends to increase the sales tax on food, the increase will be done in conjunction with a refundable tax credit targeted to the economically disadvantaged.

Sen. Niederhauser spoke in opposition to the substitute motion.

The substitute motion passed with Mr. Buchi, Rep. Dougall, Rep. Kiser, and Sen. Niederhauser voting in opposition and Mr. Cornia absent for the vote.

### **3. Other Items / Adjourn**

**MOTION:** Sen. Niederhauser moved to adjourn the meeting. The motion passed unanimously with Mr. Cornia absent for the vote.

Chair Prescott adjourned the meeting at 2:01 p.m.